

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL MEMORANDUM

HB 280 – SB 205

May 22, 2009

SUMMARY OF AMENDMENTS (005729, 008996): Deletes all language after the enacting clause and grants the State Insurance Committee, the Local Government Insurance Committee, and the Local Education Insurance Committee the authority to delegate the ability to handle and resolve disputes regarding the application of medical necessity guidelines to a subcommittee or staff. Delays the implementation of a tobacco surcharge on state employees enrolled in the state health plan based on specific lifestyle choices until January 1, 2011.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – A precise fiscal estimate of the bill is difficult due to a number of unknown factors including, but not limited to, the number of employees who will transfer to a different insurance plan and the type of procedure that will be covered after the transfer. However, it is reasonable to estimate an increase in state expenditures which exceeds \$100,000.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

**Forgone State Revenue - \$5,017,000/FY09-10
\$5,322,600/FY10-11**

Increase State Expenditures – Not Significant

Forgone Local Revenue – Exceeds \$1,000,000/FY09-10 and FY10-11

Other Fiscal Impact – According to the Department of Finance and Administration, an individual who uses tobacco products can incur greater health care costs than individuals who do not use tobacco products. It is estimated that the increased benefits and incentives provided by the State Insurance Committee to assist individuals to stop using tobacco products will result in a decrease in the amount of

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health care costs for these individuals in future years. The amount of savings in future years is dependent on several variables and is not quantifiable.

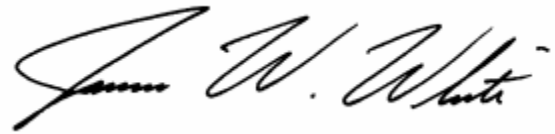
Assumptions applied to amendments:

- The Department of Finance and Administration, Division of Benefits Administration, has developed a proposal for implementing the expansion of the scope of existing appeals procedures.
- Based on the proposed revised appeals process and responses from the current plan administrators, the Division estimates that no additional administrative expenses will be incurred and no additional staffing will be necessary to implement the provisions of the bill.
- Any cost can be accommodated within existing resources without an increased appropriation or reduced reversion.
- A \$50 per month surcharge for any enrollee in the State Employee, Local Government, and Local Education Health Plans who uses tobacco will become effective January 1, 2010.
- The Department of Finance and Administration anticipates the surcharge will result in approximately \$3,584,880 in revenue from state plan enrollees and \$1,432,080 from local education plan enrollees in FY09-10. In FY10-11 and subsequent years, the Department anticipates revenue of \$7,714,208 from state plan enrollees and \$2,930,920 in local education plan enrollees.
- The proposed legislation will delay the implementation of the tobacco surcharge for one year until January 1, 2011.
- The state will forgo revenue of \$5,016,960 (\$3,584,880 + \$1,432,080) in FY09-10.
- The state will forgo six months, or one-half, of the projected revenue in FY10-11 resulting in \$5,322,564 $[(\$7,714,208 + \$2,930,920) / 2]$ of forgone revenue.
- The local governments that choose to opt into the State Employee Health Plan are responsible for a portion of the premiums for their employees. It is unknown how many local employees will be impacted by this surcharge but it is reasonably estimated that local governments participating in the State Employee Health Plan will forgo revenue collections of an amount exceeding \$1,000,000 in both FY09-10 and FY10-11.
- According to the Department of Finance and Administration, the anticipated revenue collected by the proposed surcharge will be used to fund benefits and as an incentive to assist enrollees to quit using tobacco products.
- According to the Department of Finance and Administration, an individual who uses tobacco products can incur greater health care costs than individuals who do not use tobacco products. It is estimated

that the increased benefits and incentives provided by the State Insurance Committee to assist individuals to stop using tobacco products will result in a decrease in the amount of health care costs for these individuals in future years. The amount of savings in future years is dependent on several variables including, but not limited to, the monthly surcharge and is not quantifiable.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in cursive script, reading "James W. White". The signature is written in black ink and is positioned above the printed name.

James W. White, Executive Director

/kml